

City of Morro Bay

City Council Agenda

Mission Statement

The City of Morro Bay is dedicated to the preservation and enhancement of the quality of life. The City shall be committed to this purpose and will provide a level of municipal service and safety consistent with and responsive to the needs of the public.

NOTICE OF SPECIAL MEETING TUESDAY, MAY 31, 2016 – 3:30 PM COMMUNITY CENTER MULTI-PURPOSE ROOM 1001 KENNEDY WAY, MORRO BAY, CA

ESTABLISH QUORUM AND CALL TO ORDER

PUBLIC COMMENT RE: ITEMS ON THE AGENDA

SPECIAL MEETING AGENDA ITEMS:

I. ADVISORY BOARD INTERVIEWS

Tourism Business Improvement District (TBID) Advisory Board interviews for two (2) openings:

- One current vacancy for a Hotelier member-at-large to serve the remainder of a 4-year term ending January 31, 2019
- One current vacancy for a Member-at-large to serve the remainder of a 4-year term ending January 31, 2019

II. FY 2016/17 BUDGET STUDY SESSION

ADJOURNMENT

DATED: May 26, 2016



Jamie L. Irons, Mayor

MATERIALS RELATED TO AN ITEM ON THIS AGENDA SUBMITTED TO THE CITY COUNCIL AFTER DISTRIBUTION OF THE AGENDA PACKET ARE AVAILABLE FOR PUBLIC INSPECTION AT CITY HALL LOCATED AT 595 HARBOR STREET; MORRO BAY LIBRARY LOCATED AT 625 HARBOR STREET; AND MILL'S COPY CENTER LOCATED AT 495 MORRO BAY BOULEVARD DURING NORMAL BUSINESS HOURS.

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN A CITY MEETING, PLEASE CONTACT THE CITY CLERK'S OFFICE AT LEAST 24 HOURS PRIOR TO THE MEETING TO INSURE THAT REASONABLE ARRANGEMENTS CAN BE MADE TO PROVIDE ACCESSIBILITY TO THE MEETING.



CITY OF MORRO BAY ADVISORY BOARD APPLICATION

RECEIVED
City of Morro Bay

APR 27 2016

Administration

FULL NAME: PARESH V PATEL

ADDRESS: 2460, MAIN STREET, MORRO BAY CA 93442

MAILING ADDRESS: _____

(If different)

PHONE NO. [REDACTED] / (805) 772 2212

E-MAIL ADDRESS: [REDACTED]

Please note this application is a public record that
may be disclosed to the public upon request.

Are you a registered voting resident of the City of Morro Bay? Yes ☐ No ☒

I would like to be considered for appointment to the following Commission/Advisory Board/Committee:

Planning Commission



Public Works Advisory Board (PWAB)

Harbor Advisory Board: Please circle choice below:

Waterfront Leaseholder Recreational Boating

Recreation & Parks Commission



Citizen Oversight Committee (Measure Q)/Citizens Finance Committee

Tourism Business Improvement District Advisory Board



Member-at-large



Hotelier Member-at-large

WRF Citizen's Advisory Committee

General Plan/Local Coastal Program Advisory Committee (GPAC)

Application Deadline: Friday, May 13th at 5pm

Applicants should be present in order to be interviewed by the City Council.
Interviews will be held on Tuesday, May 31st

The following is a short statement of my background and interests, which I believe qualify me for consideration (attach additional page(s) as necessary):

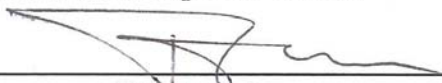
At current I am General Manager at Best western El Rancho located at 2460 Main Street, Morro Bay Ca 93442. my past experience is in Accountancy, IT industry and the most recent is Certified Balloon Artist.

I have also served as Honorary Treasurer in Shree Bavis Gam Patidar Samaj (United Kingdom) Community from 1999 till 2003, Also as Vice President of the community from 2003 till 2006. I have been elected member of the Executive committee from 1996 till 2006.

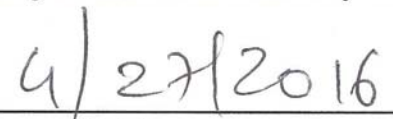
I have also given my service to teach Gujarati in Swaminarayan Sunday School, Neasden London in 2010.

I believe the above to be truth and nothing but the truth.

I have read the statement regarding the responsibilities of this Commission, Advisory Board, Committee, and should I be appointed, I will be able and willing to devote the necessary time to perform the required duties.



(Signature)



(Date)

All appointees to a City Commission, Advisory Board, or Committee will be required, in accordance with State law to file a "Statement of Economic Interest Form 700" which remains available for public inspection.

Application Deadline: Friday, May 13th at 5pm

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Interviews will be held on Tuesday, May 31st**



CITY OF MORRO BAY ADVISORY BOARD APPLICATION

RECEIVED
City of Morro Bay

MAY 13 2016

Administration

FULL NAME: Margaret E. Juren

ADDRESS: [REDACTED] Los Osos, CA 93402

MAILING ADDRESS: 259 Morro Bay Blvd, MO 93442
(If different) [REDACTED]

PHONE NO. [REDACTED]

E-MAIL ADDRESS: [REDACTED]

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☒ Tourism Business Improvement District Advisory Board
☐ Member-at-large ☒ Hotelier Member-at-large

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ATTACHED

I have read the statement regarding the responsibilities of this Commission, Advisory Board, Committee, and should I be appointed, I will be able and willing to devote the necessary time to perform the required duties.

Margaret E. Jensen
(Signature)

5-13-16
(Date)

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My husband and I operate Beach-N-Bay Getaways, operating both vacation rentals and the Harborfront and La Roche hotels. My 30 years of corporate experience combined with the lessons learned over the last 6 years starting and nurturing my business bring a wide range of skills to this position. The opportunity for Morro Bay tourism is like starting a new business, nothing but opportunity and hard work ahead. I look forward to meeting the city council to animate my application for the position of Hotelier at large.



CITY OF MORRO BAY ADVISORY BOARD APPLICATION

RECEIVED
City of Morro Bay

MAY - 4 2016

Administration

FULL NAME: Paul Eugene Van Beurden

ADDRESS: 701 Embarcadero Morro Bay, CA 93442

MAILING ADDRESS: [REDACTED] San Luis Obispo CA 93408
(If different)

PHONE NO. [REDACTED]

E-MAIL ADDRESS: [REDACTED]

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may be disclosed to the public upon request.

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☒ Member-at-large ☐ Hotelier Member-at-large

WRF Citizen's Advisory Committee

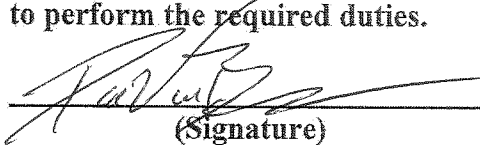
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(Signature)

5-4-16
(Date)

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My family has owned and operated many types of businesses here in Morro Bay including hotel, restaurants and retail since we moved here in 1968. We have been a part of the waterfront since 1971 when we opened the Hofbrau. I now operate Dutchman's Seafood House in the Dutchman's Landing building at 701 Embarcadero. We employ 25 part time and full time hardworking people in our establishment. They count on the success of the business to take care of their families and themselves. The recession was painful for everyone and we are in a recovery mode now. The tourism bureau with TBID has done an outstanding job marketing our town. There is a lot of competition from other communities for tourism dollars so; we need to increase our efforts to attract more people here. I support our local fisherman and business when possible to keep our money here. We can increase revenue for our city with these efforts and still retain the charm of our unique "City by the Bay"

I have in the past and present served on various community organizations and boards including

City Promotions

Harbor Festival

Morro Bay Chamber

Thank you for your consideration.

Regards,

Paul Van Beurden



CITY OF MORRO BAY ADVISORY BOARD APPLICATION

RECEIVED
City of Morro Bay

MAY 12 2016

Administration

FULL NAME: Joel CLAY

ADDRESS: 201 State Park RD Morro Bay

MAILING ADDRESS: _____
(If different)

PHONE NO. _____

E-MAIL ADDRESS: _____

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Joel Chy

(Signature)

5-12-2016

(Date)

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Joel Clay, owner of Golden State Golf Company , a PGA member with over 30 Years' experience in all aspects of golf operations. Currently in a 10-year contract with the County of San Luis Obispo at Morro Bay Golf Course. I also operate Chalk Mountain Golf Course in Atascadero and Dairy Creek Golf Course in San Luis Obispo. As operations manager for Morro Bay Golf Course, GSGC has successfully increased rounds of golf by 9% and green fee revenue by 14% in 2015. I have always been considered a forward-thinking businessman and supportive community partner. As a Director of Visit San Luis Obispo County I played a key role in the transistion to the current County Tourism Marketing District. I have served on the Board of Directors of Visit San Luis Obispo County along with the Atascadero Chamber of Commerce where I was the chairman of the tourism commettee. A life-time resident of San Luis Obispo County. I grew up in Atascadero and well connected in the community. I am excited to have this opportunity to serve the City of Morro Bay on the MBTBID Advisory Board.

Joel Clay

Golden State Golf Company

201 State Park Road

Morro Bay Ca, 93442





CITY OF MORRO BAY ADVISORY BOARD APPLICATION

RECEIVED
City of Morro Bay

MAY 13 2016

Administration

FULL NAME: KATHERINE CALDWELL

ADDRESS: [REDACTED] MORRO BAY

MAILING ADDRESS: _____
(If different)

PHONE NO. [REDACTED]

E-MAIL ADDRESS: [REDACTED]

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☒ Member-at-large ☐ Hotelier Member-at-large

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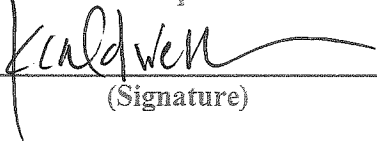
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Please see Attachment 1.

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(Signature)

05/13/2016

(Date)

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Tourism Business Improvement District Advisory Board

Attachment 1

I am a retired attorney with extensive experience in family law, estate planning and contracts. In my last position prior to retirement, I worked for the Department of Defense, Defense Contract Management Agency.

I no longer practice law, although I am still an attorney in good standing. Currently, I manage a privately held portfolio of commercial and residential properties and serve as President of the board for the Morro Bay Art Association, a 501(c)(3) non-profit organization founded in downtown Morro Bay in 1951.

My interests are fine arts, crafts, and music, travel, and civic involvement, not always in that order. I was a volunteer member of San Luis Obispo Symphony. I enjoy the opera, rock & roll, and the blues as well as classical music. Poetry reading, plays, stand-up comedy, art exhibits, open studios, and workshops are just a few of the things I enjoy.

Pablo Picasso said, "Every child is an artist. The problem is how to remain an artist once he grows up." I don't believe that he was only referring to painting. Whether it is playing the violin or working in watercolors, as children we are brave enough to try anything. As adults, we resonate deeply with the creative parts of our souls that are often ignored because of other obligations.

If I were selected to serve on the TBID Advisory Board, I would focus on raising the number of visitors to Morro Bay through the arts. Visual arts and performing arts bring **color** to life and stir emotion. The arts tug at that place inside all humans that elicits joy and sorrow, compassion and excitement.

The arts bring visitors. The arts create memories. Why do certain vacations stand out as special? Chances are it was an event that had something to do with the arts. Certain songs bring you back to a specific place and time; a painting reminds you of an afternoon you spent at the beach; the sound of oysters being shucked recalls the time you sat at that bar in Tomales Bay. Through the arts – visual arts, culinary arts, and performing arts - we can help Morro Bay visitors create memories of a special place they will want to return to. More importantly, by creating good memories for our visitors, we can be sure they will tell their friends, families and co-workers about how wonderful the experience of visiting Morro Bay is.

Come find yourself and lose yourself in Morro Bay arts!



AGENDA NO: II

MEETING DATE: May 31, 2016

Staff Report

TO: Honorable Mayor & City Council

DATE: May 25, 2016

FROM: David W. Buckingham, City Manager

SUBJECT: FY 2016/17 Budget Study Session

RECOMMENDATION

Staff recommends the City Council finalize input for the draft FY 2016/17 City of Morro Bay Budget.

DISCUSSION/SUMMARY

On February 23, 2016, the City Council adopted 2016/17 City Goals and Program Objectives. Based, in large part, on that direction as well as information gleaned in the 10-year budget forecast prepared by Management Partners, staff has developed the FY 2016/17 Draft Proposed Budget for Council and public review and input.

A Budget Study Session was held on May 24, 2016 to present an overview of department budgets, capital replacement funds and long-term projections. A number of items were discussed by Council, staff and the public at that meeting. For clarity and transparency purposes, the following updates were made and have been incorporated into the budget document in preparation for this meeting.

1. The Budget Letter has been updated. All changes are in red font.
2. The Salary Schedule has been changed in formatting only. The new 2016/17 Salary Schedule will be included in the final budget once approved by Council and the applicable bargaining units.
3. The Goals Spending Priority List has been updated with specific recommendations on how to address the eleven unfunded requirements.
4. Two of the budget detail sheets will change in the final budget: Housing-in-Lieu will be updated to reflect the Home Share SLO Contribution and Parking-in-Lieu to correct an error listing a \$373,000 charge for this year.

Prepared By: DWB

Dept Review: _____

City Manager Review: DWB

City Attorney Review: _____

Tuesday's meeting will be an opportunity for Council and the public to provide any additional input. Furthermore, the spending plan for the unfunded requirements will be finalized. Following this meeting, staff will make any necessary adjustments and return with a final budget for adoption at the June 14, 2016 regular City Council Meeting.

ATTACHMENT

The proposed FY 2016/17 Budget is available on the City website: [2016/17 Draft Proposed Budget](#)

The handouts of the Line Item Budget Worksheet Reports are also available on the City website: [General Fund](#) and [Enterprise Funds](#)



CITY OF MORRO BAY

CITY HALL
595 Harbor Street
Morro Bay, CA 93442

Memorandum for City Council

Date: May 25, 2016

Subject: Draft FY16-17 Adopted Budget

*THIS DOCUMENT **IS THE FINAL DRAFT** OF THE FISCAL YEAR 2016-2017 (FY 16-17) BUDGET LETTER BEING USED IN THE BUDGET DEVELOPMENT PROCESS. IT IS WRITTEN AS IF THIS BUDGET IS APPROVED, AND WILL BE ADJUSTED DURING THE BUDGET DEVELOPMENT PROCESS UNTIL IT IS APPROVED BY COUNCIL ACTION IN JUNE 2016.*

~~*WE LOOK FORWARD TO MAKING CHANGES TO THIS DOCUMENT AS WE GET INPUT BOTH FROM THE COMMUNITY AND THE CITY COUNCIL.*~~

The initial draft presented in Council study session on May 24, 2016 was largely unchanged and ready to be approved. A number of items and clarifications were discussed by Council, staff and the public at that study session. For clarity and transparency, the following updates are provided in preparation for the final study session. This section will be removed before final adoption of the budget.

Provide fuller explanation of projected revenues:

- *Now included in the budget letter.*

Identify major variances from FY15-16 budget.

- *Some variances, including the “triple flip”, noted in the budget letter.*

Hotelier community is planning for a 10-12% increase in TOT and expects the Tourism Division to ensure this happens.

- *Staff looks forward to partnering with our lodging community, with advice from the TBID Advisory Board, to help make this year as or more successful than previous years.*

Spell out acronyms and provide fuller explanation of some arcane items, especially with regard to WRF expenses.

- *Full section on WRF budget for this year added to budget letter.*

Consider Benchmarking with similar cities.

- *Staff to request Citizens Finance Committee to compare FY16-17 budget to CA benchmarks to inform development of FY17-18 budget.*

Review and reporting on City investments.

- *The investment policy requires monthly staff review of investment performance, and quarterly reporting. Staff will continue to review monthly and will report quarterly to the CFAC. Policy to be modified to clarify who reports to whom and how often.*

Improved reporting on new WRF costs.

- *As noted, the budget letter now includes a full section on the WRF budget. This section notes the WRF budget execution will be briefed at least quarterly to the WRFCAC, and written updates provided regularly to Council.*

Vacation Time Off Policy.

- *City Manager would like to address this in the year ahead.*

Measure Q Debt Finance.

- *Neither the PWAB nor the CFAC wanted to recommend a streets financing approach this year. Current Council direction is to wait to consider this after the Nov 2016 election which will likely have a county street tax provision.*

41&Main Overpass Mural

- *Staff is aware of this project and will advocate for it as planning for the 41and Main intersection progresses.*

What is the \$373K expense shown in 15/16 in the parking in lieu fund on page 81?

- *Staff is correcting this as it is confusing. There will be an expense in 15/16 of about \$79K for improvements completed this year to the triangle lot entrance to improve safety and facilitate continued development of the maritime museum. Several years ago the Council passes a resolution “reserving” ~\$400K in parking in lieu for the Triangle lot. The notes will be adjusted to show this, but it will not be shown as an expense.*

Home Share SLO \$5,000 Request

- *In current budget draft for approval.*

Provide examples of previous uses of City Manager Opportunity Funds.

- *Additional explanation added to this budget letter.*

How will we know if/when the debt coverage ratio in the water fund is being met?

- *The 2015-2016 City audit should show the debt coverage ratio is being met. This is now noted in the budget letter.*

My staff and I are happy to present you the FY16-17 Adopted Budget. The General Fund budget is balanced and shows a small surplus of \$11,235.

As per usual, this budget covers all of the various funds in the City:

- The General Fund and associated reserve/accumulation funds such as the General Fund Emergency Reserve, and Facility and Vehicle Replacement Funds, etc.
- Special Revenue Funds such as Measure Q, Morro Bay Tourism Business Improvement District and Governmental Impact Fees,
- Enterprise Funds such as Water and Sewer.
- Other funds such as the Wastewater Treatment fund which is a Component Unit fund jointly managed by the City and the Cayucos Sanitary District.

A comprehensive City Funds List is in the attachments.

By law, revenues into the Enterprise Funds must be used only for related expenses. Staff is diligent to ensure, for example, that water fund revenues are only used for expenses directly related to the acquisition, treatment and distribution of water.

The Special Revenue Funds have similar requirements and limitations. Perhaps our most important / visible special revenue fund is the Measure Q fund that receives revenues from the City's ½ cent special sales tax passed in Nov 2006 under Measure Q and intended solely for streets, storm drains and public safety. This year Measure Q is projected to generate revenues of over \$1M to be used for streets and public safety, and this budget does that. The other special revenue funds are in balance and, except as noted below, unremarkable.

The General Fund will, as per usual, generate the most interest, as it provides the biggest opportunity for discretionary spending. That said, even in the ~\$12M general fund, there are limited discretionary funds available, and thus little capacity to address major city goals. With around 72% of the General Fund committed to labor, and much of the balance committed to fairly non-negotiable items such as paying for the basic license for our accounting software, providing essential training for police and fire personnel, having copy machines in city offices and purchasing fuel for police and fire vehicles, there is little money left to spread between our many various needs and desires. That said, this budget does work to address many of our adopted FY16-17 work plan objectives. For example, this budget increases spending on tree trimming by 50% over last year, and sustains the tripling of resources for cleaning bathrooms and emptying trash cans, allowing us to keep up with demand created by visitors and residents, especially on weekends.

Addressing our revenue shortfalls is crucial for the City if we are to remain a full service City in the decades ahead. The following section elaborates a bit more on that tension.

10-Year Budget Forecast

This budget is based on, and consistent with, the 10-year Budget Forecast prepared for Morro Bay by Management Partners, and presented to the Council in March 2016. This was our second-ever 10-year forecast and this year included the Harbor Fund. We intend to include the Water and Sewer Funds in our next 10-year forecast. That budget forecast was quite clear in

demonstrating that while Morro Bay is not on the verge of insolvency, we have some significant medium term (5-year) and long-term (30 year) fiscal challenges.

- **Long Term Challenges.** Generalizing, the community of Morro Bay grew up a small but vibrant fishing port and the City of Morro Bay developed around the Morro Bay Power Plant.
 - Nurturing and retaining our working waterfront and wonderful commercial fishing is clearly an important requirement. However, requirements for streets, Police, Fire and Harbor and other City services have grown beyond what our small but vibrant fishing industry can sustain. Much more significant, the revenues the city previously received from the MBPP are gone, and the City has not revitalized in a way that sustainably replaces those lost revenues.
 - While tourism in general, and the transient occupancy tax (TOT) in specific, have been crucial in keeping us afloat, it is very unlikely – and perhaps not completely desirable – that Tourism will grow in a way that will make the City’s finances sustainable for 50 years. To be clear, tourism is absolutely essential (TOT alone comprises fully 25% of the general revenues in this budget) but we would need to double the number of overnight visitors today in order to meet our requirements today. That is not happening, and, as noted, it not desirable. The City must broaden and diversify our economy and take decisive steps to encourage smart investment to revitalize, focused initially on our four primary economic zones: downtown, the Embarcadero, North Main Street, and Quintana Road.
 - The City Manager has written and spoken a lot on economic development and revitalization in the past year and we do not intend to further expand on that need. Suffice it to say that if Morro Bay does not permit some measured change, we will not be able to pave our streets, replace public facilities, provide the level of police and fire service we believe is appropriate for this community or even think about other needs that might be a bit higher on Maslow’s hierarchy – such as improved aesthetics in public spaces and expanded recreation programs. All that said, there are huge opportunities for precisely the kind of small, green, targeted revitalization and economic development actions that could make the City sustainable. Our ongoing Economic Development Strategic Plan, and the City’s parallel economic investment engagement program, will tee-up opportunities. The question is, will the City swing, or not? With recent approvals for the new Aquarium project, the Libertine complete remodel, and investment in a business-speed fiber network – we on the right path.

- **Medium Term Challenges.** Two medium-term concerns identified in our 10-year budget forecast are being dealt with appropriately. First, along with the rest of California, our CALPERS contributions began to spike this year, driving our labor costs up measurably. The good news for Morro Bay is, unlike many California cities, those same CALPERS contributions are going to drop back down to current levels quite quickly – in about 3-4 years. So, we have a four to five year problem, not a 20-year CALPERs problem. This budget absorbs the impact of the beginning of that spike and remains in balance, largely because a projected 2017 recession may not be manifesting itself when projected. Our new 10-year budget forecast does project a moderate 5% recession in 2018 instead of 2017. It may come in 2017, 2018, or not at all. The important point is that we are projecting a recession, and have that built into our forecast, so we are prepared for it.

Cash-based vs Requirements-based Budgeting

Like many cities, Morro Bay has consistently practiced “cash-based” budgeting. That is, we project about how much cash (revenues) we expect to receive, and then divvy that up across all the usual suspects (expenditures). While this is standard, it does not give us a very good picture of what you are choosing *not* to “buy” and, therefore, it does not allow us to see and adjust priorities very well. For example, what if we learned we were funding the Fire Department at 35% of their requirement and streets at 95% of the requirement? We might choose to increase the Fire budget and reduce the streets budget.

The City’s requirements, just in the General Fund, are likely \$3,000,000 below our current revenues / budget. Another way to say this is that in order to provide the basic services we believe we should be providing, we need revenues of around \$16,000,000 and our revenues this years are projected just short of \$13,000,000. This is not to say the City is running a \$3M deficit, this budget is balanced. However, this budget does not fully fund some basic services, including:

- **Streets.** The Pavement Condition Index (PCI) is the accepted measure of street condition / maintenance, and an average of PCI-70 is the California State standard. Were our streets currently at PMI-70 (they are not even close to that good), we would need to budget around \$1,500,000/year simply to keep our streets at that average condition. This budget allocates almost \$600,000 to streets. So, we are funding our streets at about 33% of the requirement (an important note here is that since our streets are in quite bad condition, we actually require about 15 years of \$2M/year spending to bring them up to an average of PCI-70). So, that is \$1M of our budget gap.
- **Capital Replacement.** The City now has a capital facility replacement fund into which money should be set aside each year for major maintenance and eventual replacement

of City facilities (a.k.a., funded depreciation). We anticipate that Morro Bay should be saving about \$1,000,000/year for major maintenance/funded depreciation. This budget allocates \$100,000 to this purpose, 10% of our requirement. That is another \$1M of our \$3M gap.

- **Police Department.** We believe that having 3 officers on patrol / shift is appropriate for Morro Bay. To maintain three x 3-officer shifts, we require 20 police officers. This budget includes 18 police officers, one of which is the School Resource Officer. If 3 officers/shift is the basic requirement, we are short around \$250K in the PD.
- **Fire Department.** We believe that having four full-time firefighters on duty and ready to respond is appropriate for Morro Bay. To achieve this, we require two additional firefighters in the General Fund. We are short around \$250K for firefighters and associated equipment.
- **Other Needs.** While we are sustaining our existing recreation programs, as minimum wage nearly doubles from 2014 to 2020, the cost of continuing existing programs will increase dramatically. Further, our community values recreation programs, especially for youth and seniors, and expanding opportunities is a legitimate goal. Other needs included a broad and sustained effort to improve the safety and aesthetics of our public spaces – from tree-trimming to sidewalk replacement to tree-lighting to public restrooms, trash collection and upkeep of public-serving City facilities. Between recreation and general improvement and upkeep of public spaces, we are likely short another \$500,000.

Over the upcoming years, we intend to better define the requirements for all City activities and provide these to you in a way that helps you make important budget decisions.

City Organization and Full Time Equivalent Employees

With this budget the City Manager is recommending a number of moderate changes to the city's organization. These changes follow:

- Moves responsibility for Human Resources from Administrative Services to the City Clerk Office. This essentially establishes a City Clerk Office that includes traditional City Clerk operations, Risk Management and Human Resources. The City Clerk position is moved from the Confidential Group to the Management Group. While the salary is higher, this is a zero cost change since as a manager the City Clerk will not receive overtime / compensatory time for working Council meetings. The City Clerks new salary was set in

the schedule to equal her previous salary, plus the cost of overtime / comp time paid due to the many meetings she is required to attend.

- With the organization of Human Resources under the City Clerk, the Administrative Services Department will no longer supervise either HR or IT and will only include finance functions. Thus, this budget renames Administrative Services Department to the Finance Department and changes the previous *Administrative Services* Director title to *Finance* Director.
- Identifies the senior employee in the Community Development as the *Director*, instead of the Community Development *Manager*. We established the Community Development *Department* in the budget last year, but waited until this year to formally make the Community Development Manager the Community Development *Director*.
- Refers formally to “Recreation” as the Recreation Services Division instead of the Parks and Recreation Department.
- Increases the level and authority of one of the two previous Recreation Supervisors to a Recreation Coordinator. The Coordinator is not part of the Management Group, but is more senior than a Supervisor. That position is currently vacant and is in the hiring process. This will allow us to hire a supervisory employee who will be responsible for supervising the entire Recreation Services Division while also focusing on particular programs and improvements. The Recreation Services Division Coordinator will report to the Deputy City Manager.
- Changes two Recreation employees from full-time / partial benefits, to FTE. This is consistent with Council action and request when we recently did the same thing for a position in Community Development. We are moving away from working employees full-time without providing benefits consistent with other full time employees.
- With the announced retirement of the Administrative Services Director, and voluntary resignation of the Deputy City Manager, we are in the process of hiring two key executive-level employees. As we go through the hiring process, we may not find a DCM with the precise skill set as the previous DCM, and may find a finance professional with other key skills. It is possible, perhaps likely, that during this process the City Manager will fill these positions in a way that juggles current responsibilities marginally. To be sure, between the City Manager, City Clerk, new Deputy City Manager and new Finance Director, the City Manager will ensure that the key functions of Finance, Human Resources, Economic Development, Information Technology, and Public Engagement - and also supervision of the Recreation Services Division, are appropriately assigned and aligned.
- Further, depending on the qualifications of the various applicants for these positions, it is possible the City Manager will decide to hire one of these positions as an Assistant City Manager. That is, either an Assistant City Manager instead of a Deputy City Manager, or, an Assistant City Manager / Finance Director. In either case the ACM would have a full portfolio of key responsibilities (see paragraph above) but might also

be the designated “second in command” and able to exercise appropriate authority to manage the City, especially when the City Manager is not available.

The changes above, and changes previously approved by Council action, set the City’s Full Time Equivalent (FTE) employee number at 96.75.

Attachment 1 to this budget letter and included at the beginning of the budget is a detailed city organization chart. This chart(s) is not meant to perfectly describe lines of authority or function within departments / divisions. It does, however, clearly lay out City Organization at the Department and in some cases Division level, and further clearly designated the City’s 96.75 FTE positions. It is important to note that FTE is tied to positions / budget and not necessarily to people. In a few cases we have part time employees, or no employees, in FTE positions as we determine the most effective and efficient way to do the City’s business.

Key Funds and New Actions

Before providing a department-by-department overview of the budget, it is important to highlight some key funds and identify some new actions in this year’s budget. The City made good initial progress last year establishing some protected funds for specific purposes, and focusing attention of special funds that had previously existed.

- **General Fund Emergency Reserve (GFER).** The GFER level for end of year 2016 was set by Council resolution at \$3.58M. We anticipate we will end this year at \$3.59M, \$100,000 above requirement. For a number of reasons, we recommend leaving that extra \$100K in the GFER as a buffer. The Council adopted GFER level for EOY 17 is \$3.28M, but this was set based on a projected 2017 recession. This budget anticipates ending FY16/17 with \$3.61M in the GFER, around \$330K above the requirement. We do not recommend spending this “surplus” since the GFER remains below our general 27.5% of revenues GFER target.
- **Risk Management Fund.** Our minimum reserve in this fund is set at \$100,000 by policy. We anticipate we will end this year with \$153K in the risk management fund, and end next year with \$254K in that fund. Thus, there may be some opportunity for 1-time spending from this fund since it is above the minimum reserve level. However, there are a number of ongoing activities that could impact this fund and staff does not recommend harvesting any excess from the risk management fund until the mid-year 2016-17 budget review.
- **Capital Replacement Fund.** This fund was established last year as “funded depreciation” account for the eventual replacement of City facilities such as the police station, public bathrooms and other public facilities. We put \$100,000 into this fund last year, and this year are increasing the contribution to \$100,000. This is the fund that likely requires a \$1M annual contribution for facility major maintenance and

replacement. At the end of FY16-17, the City will have \$175K on hand for capital replacement.

- **Vehicle Replacement Fund.** This fund was established as a way to regularly save for replacement of city vehicles. We contributed \$100K to this fund in FY15-16 and did not purchase any vehicles so had no expenditures. This budget puts \$75,000 into this fund. We anticipate needing to replace two maintenance trucks that have reached the end of their lifecycle and thus expenditure of \$70,000 is planned. This coming year we hope to project the ongoing annual requirement for vehicle replacement. At this point we are not positive if the requirement is \$75,000 a year or \$200,000 a year, or somewhere in between.
- **Project Accumulation Fund.** This fund was established to protect funds required for new capital projects, be they known or unknown. This may also be a source of matching fund for grants associated with projects. Upcoming projects could be the 41 and Main intersection improvements, the Embarcadero Promenade concept, or other new projects/facilities approved by Council. We put \$200K into this fund in last year's budget. This year we were able to contribute \$125K. For good, sustainable fiscal planning and execution, like with the Capital Replacement and Vehicle Replacement Funds, it is important that we continue to save into these fund and not view them as sources for more day-to-day priorities and opportunities.
- **General Fund Facility Maintenance Fund.** This fund is for general ongoing maintenance of city facilities. Fixing roofs, repairing toilets, painting public bathrooms, etc. This fund was historically funded from payments on the Brannigans/Distasios/Salwassar note the city held. This fund will now be funded from rents received from the tenant in the now-city-owned Distasios building. Over the next few years we will need to begin to fund this maintenance fund from general fund revenues directly as we consider possible revitalization of the Market Plaza area including the Distasios restaurant building.
- **Compensable Leaves Fund.** This fund was created last year to save against "retirement payouts." These payouts are for unused employee leaves that must be paid out when an employee separates from City employment. Since we cannot predict when an employee will retire or resign, those payouts are currently unfunded expenditures from the current year budget – a bad way of doing business. The current required level in this bucket is ~\$686K. That is, if every current employee cashed in all accrued and payable leaves (vacation, compensatory time off, administrative leave, floating holiday bank) today, we'd have a bill of about ~\$686K. New in the budget this year, we are now saving a little each year to put into this fund. This is in the budget as a 1% "tax" on all regular pays. Over the years ahead, we intend to build up an appropriate reserve in this fund to pay for unanticipated compensable leaves. This budget projects \$66,732 to go into this fund this year.
- **Contract Services.** Not a new fund but a new section in the General Fund budget is "Contract Services". This year we have consolidated some of our largest contracts, especially those that serve multiple departments, into one budget section. Most of

these contracts were previously split between various departments and showing them all in one place should improve visibility on them.

THE GENERAL FUND

With that overview as a preface, the General Fund discussion follows. As you know, the General Fund is the recipient of most of our taxes, and pays for most of our services. This budget appropriately commits the vast majority of our revenues to our most basic services: Public Safety and Infrastructure.

General Fund Revenues

General Fund Revenues come primarily from four sources: property tax, transient occupancy tax (TOT), sales tax and various fees-for-service charged by the city. Sales Tax, TOT and Property Taxes generate well over 70% of projected revenues.

One key component of the City's 10-year budget forecast is a professional analysis of the City's revenue sources and then projecting future revenues considering economic trends and with a benchmarking eye on similar cities. The 10-year forecast is available on the City's website for additional reference. The revenue forecasts in this budget are firmly based on our March 2016 10-year budget forecast.

- The property tax projection is based in part on the most recent County assessor data. We are projecting a ~4.5% increase in property tax this year.
- Sales tax is projected to increase about 1.5%. It is important to note, if comparing these budget lines year after year, that the expiration of the "triple flip" (sales-tax-in-lieu, a State-orchestrated accounting modification) skews our year over year property tax and sales tax numbers slightly.
- While the City is projecting long-term growth of TOT at 5%, we are budgeting an increase of 6% this year as we continue to see strong tourism numbers and anticipate the continued effectiveness of Morro Bay Tourism.
- Other fee-based revenues have been adjusted slightly higher from last year, primarily affected by an around 2% adjustment based on the consumer price index and other appropriate indexes.

While projecting revenues might be fun for a few, everyone loves deciding what to spend money on. So, here with go with expenditures.

General Fund Expenditures

As with previous budgets, this budget divides expenditures up by various departments and sub-departmental sections of accounting. The letter will address them all at Departmental level.

Personnel

Since people are the most expensive part of any governmental budget, they deserve a separate section. This budget spends over 72% on people, and 57% of that is on firefighters and police officers. Indeed, over 45% of the entire General Fund budget goes to pay the police officers and firemen on the streets - money well spent.

General Fund Departmental Expenditures

The following sections address the various General Fund Departments / Sections in more detail. Readers may refer to either the one-page budget schedules, or the more detailed line-by-line budget reports, for additional information.

City Council

This section covers expenses generated by City Council.

- The personnel line covers personnel costs for five council members.
- The services line includes items such as insurance share, and EVC, LAFCO, League of California Cities and California Coastal Trail Association memberships.
- The services line also includes sufficient meetings and travel funds for City Council attendance at the bi-annual LCC Annual Conference and the LCC Mayors and Councilmembers Academy.
- Under “payment to other agencies”, this budget includes a defined “one-time bequests” line for \$8,000, up from \$7,500 last year. (6.6% increase) This is the Council’s “benevolence” fund, monies available to support worthy causes, such as SCORE, Community Resource Connections office, and Senior Nutrition. Based on last years contributions, staff recommends the Council consider this distribution:

Activity	2015-16 Contribution	2016-17 Contribution
Senior Nutrition	\$5000	\$5000
SLO Housing Trust	\$1000	\$1000
Community Resource Connections	\$1000	\$1000
SCORE	\$500	\$500
TBD	0	\$500
Total	\$7500	\$8000

- The city will fulfill a request for \$5000 in assistance from Home Share SLO. Funds will be transferred from the Housing in Lieu fund with no effect on the general fund.
- ~~The City has received a request for up to \$5000 from Home Share SLO. Should the Council wish to contribute funds to Home Share SLO, those funds can be legally taken from our affordable Housing In Lieu fund which has plenty of balance allow us to fulfill this request. Staff opinion is that Home Share SLO is a reasonable use for these funds.~~

City Manager

This section covers expenses generated by the City Manager's office. The City Clerk, previously included in this section, has been moved entirely to a separate department.

- The personnel line covers personnel costs for the City Manager.
- The services line includes items such as utilities, memberships in appropriate professional organizations, attendance at essential professional training and conferences, staff training events, and volunteer recognition events.
- This budget includes \$25,000 for the City Manager's Opportunity Fund, a discretionary fund the City Manager may use as appropriate for unidentified projects and items, normally related to improving our economic / fiscal situation. Last year, this fund paid for our 10-year economic forecast, provided limited assistance to the Chamber Business Walk, ~~completed the split-rail fence at the bike park, provided flexibility to make an immediate commitment to host the AMGEN Tour of California,~~ and similar activities clearly in line with our City's Goals and Objectives but not known requirement during the budget process. This fund was budgeted at \$30,000 last year (first year of existence) and reduced to \$25,000 this year.

Contract Services

This is a new section of the budget this year, a change made to provide better transparency and cleaner understanding of some significant expenses. Each of the major contracts in this section were previously included in other sections of the budget. They are all now consolidated in this section. Following is a brief description of each of these contracts.

- Fiscal Management Fees. \$7,500. This is the City's required contract with the Public Agency Retirement System (PARS), to provide social security-like retirement coverage to part time employees not enrolled in CALPERS.
- Aleshire & Wynder. \$150,000. This is the General Fund portion of our legal services contract with Aleshire & Wynder. The City continues to receive excellent, comprehensive service from A&W.

- AGP Video. \$60,000. The cost of providing TV coverage of all public meetings. The City is saving some money in this area using employee hours to post meeting videos on YouTube instead of paying an additional fee for this service.
- Dispatch Services. Dispatch services for Fire (\$123,899) and Sheriff (\$252,076). The transition to regional dispatch has gone quite smoothly and is providing good service to both our first responders and our residents.
- DocuTeam. \$9,500. This is the general fund share for the legally required storage of historic City documents by a contractor. As we improve our record keeping and digitize historic documents, we may be able to wean ourselves off of this service; however, there will likely be a short-term uptick in costs to destroy records as appropriate based on an updated Record Retention Schedule.
- Digital Map. \$10,000. This is the general fund share of our current GIS mapping application (likely to be replaced with Cityworks when that is fully operational).
- Ricoh. \$35,000. This is consolidated cost of all general fund departments for our copier services contract. In Feb 2016 staff reviewed this contract, compared it to other alternatives, and determined to continue with this Ricoh contract for this essential service.
- Visitor Center. The City is under contract with the Chamber of Commerce to provide Visitor Center services in the City-owned building at 695 Harbor Street. The contractual expense for this service in FY16-17 is \$50,000.
- Animal Services. This is the City's pro-rata share paid to the County for animal services: animal shelter, etc. Since the County has approved and is moving forward with construction of a new animal shelter, we are budgeting for a substantial increase to Animal Services, from ~\$45,000 to ~\$70,000. The SLO County City Managers are working closely with / against County staff to ensure this project meets basic requirements but does not grow beyond the basic level of service required for public health and expected by the population. This is budgeted conservatively as the project is in the initial planning phase, budgeting the expense next year should be more precise.

City Clerk Office

City Clerk and Legal Services

This section covers expenses generated by the City Clerk office. This office includes the City Clerk and Legal Assistant / Deputy City Clerk. The Legal Assistant / Deputy City Clerk is our primary Risk Management employee and much of her time is charged to Risk Management. As noted in the reorganization section, we will combine Human Resources (HR) into this office this year and so HR is included under the City Clerk Office.

- The personnel line covers personnel costs for the City Clerk and Legal Assistant, with a split between both City Clerk and Risk Management.
- The services line includes resources to complete the Clerks formal education as a Certified City Clerk, appropriate professional development, (including supervisory training), and association memberships for the Clerk and Deputy Clerk.

Elections

This section budgets \$10,350 for local elections. This will be combined with the \$10,000 allocated in the FY15-16 budget to pay the ~\$20,000 bill for the November 2016 election.

Human Resources

This section covers Human Resources operations for a ~100 person organization.

- The personnel line is for one full-time employee.
- The Services line includes items such as retainer for Liebert Cassidy and Whitmore who provide valuable HR training and advising (\$4,590) and Addiction Medicine who provide our new employee drug testing service (\$3,000).

Deputy / Assistant City Manager

This section covers expenses generated by the Deputy / Assistant City Manager's office.

- The personnel line covers 50% of the personnel costs for the Deputy City Manager. The rest of the DCM's personal costs are distributed between IT and Rec.
- The services line includes a total of \$3,000 for communication, promotion and advertising requirements such as special utility bill mailers to inform residents of particular important information / events.
- The services line also includes appropriate professional development activities and memberships.

Finance Department (Accounting and Treasury)

This section covers most major general fund revenues, and Finance Department expenses. As noted previously, HR was previously organized under this department and has been moved in this budget to the City Clerk Office.

- The personnel line covers all or part of several finance employees, including the Administrative Services Director (to transition to Finance Director), Senior Accounting Technician and Account Clerks. The personnel line also includes \$30,000 for the planned 2-month overlap between our retiring Administrative Services director and our incoming Finance Director.
- The services line includes items such as annual audit (\$40,750), licenses for financial accounting systems and services, \$63,000), miscellaneous bank charges (\$12,000), postage, telephone service, etc.
- The services line also includes \$5,000 for our FY 17-18 10-year Budget Forecast planned for February 2017.

Police Department

This section covers the Police Department and has two parts: operations and support services.

- The overall PD budget is inline from last year with no major overall changes.
- The total expenses are around \$140,000 lower than last year due to moving the Sheriff dispatch contract (~\$250,000) to contract services.
- The remaining general increase in expenses is due primarily to the anticipated sharp increase in CALPERS contributions, an increase we forecasted, and anticipate to continue for about 4 years and then drawing down.
- PD Operations.
 - The operations section includes all PD operations – primarily labor for sworn officers.
 - This budget includes a new, part-time position, a training coordinator, who will support the department's strategic plan objectives by enhancing patrol resources through the employ of non-sworn professional staff. The training coordinator will be responsible for planning and scheduling all professional development and required training, crime analysis, social media support, and other duties as assigned. This position is included in the department's COPS budget along with the part-time property and evidence technician.
 - The Supplies and Services section includes items such as vehicle fuel (\$35K), weapons training (\$7K), officer training (\$40K), hiring and investigations (\$22K), etc.
- Support Services. The Support services section is very much in line with last year's budget. The movement of sheriff dispatch to contract services is the reason for the significant drop in the services section from last year.

Fire Department

This section covers all fire department operations.

- Overall, the Fire Department is inline from last year. The total expenses show a \$140K reduction from 2016 due primarily to moving the fire dispatch contract (\$123K) to contract services.
- The personnel line can be confusing because of overtime pay, part-time pay, Measure Q funding, and mutual aid.
- The overtime pay line is down sharply from last year because we are not budgeting for mutual aid revenues or expenditures. Mutual aid responses during fire season from our Fire Department directly impact the overtime pay line. The costs of mutual aid responses are always balanced with mutual aid revenues and adjusted during the mid-year budget process. We are not budgeting for either mutual aid revenues or expenses and will balance them at mid-year after the summer fire season.
- The personnel line includes a .25 FTE (10-hour) increase to our .5 FTE admin in the Fire Department. This increase is largely balanced by a decrease in other part time pay. This increase in admin will allow the Fire Chief to focus more time on grant writing and less on routine admin – a move that should pay financial dividend. If it does not, we will not continue this next year.
- This budget does include \$10,000 for professional assistance to complete our Hazard Mitigation Plan – a requirement associated with FY15/16 Goal #4 (Public Safety)-Objectives “b” (Drought Annex) and “e” (Emergency Plan Update).
- The EOC disaster preparedness section is in line with previous years, and has EOC funding associated with FY 15/16 Goal #4 (Public Safety) -Objective “a” (EOC training).

Community Development

This section covers our now enduring Community Development Department. The following are some general comments on the Community Development section.

- The budget includes personnel costs for the Community Development Director, two permanent planners, two part-time contract planners, two part time code enforcement offices, the building inspector, Permit Technician, full time Office Assistant and part time Office Assistant.
- The measurable increase in regular pay is offset by a reduction in part time pay, a result of council approval to make the assistant / associate planner position a FTE. This change increased the Community Development Budget by approximately \$8,200 related to added benefits.

- ~~This budget includes \$100K for the Comprehensive Zoning Update previous approved by Council during FY16-17 goal setting, but not yet budgeted.~~
- The budget includes \$100,000 for the Council directed comprehensive update to the Zoning Ordinance as identified in Goal #3, objective b.
- This budget includes \$15K for environmental and consultant services related to Goal #3, Objective d, update of the wireless ordinance and Objective f, implementation of the 2016 Building Code.
- This budget includes a \$15K ongoing amount for the CityWorks planning & building permitting application/ work order system.

Public Works

This section covers the public works department, minus the water and sewer enterprise funds. There are no significant changes to this department since our reorganization that was reflected in the 2016 budget.

- This section can be a little hard to understand, especially the personnel pieces, since we are required to have a number of special budget sections (Public Works, Consolidated Maintenance, Street Maintenance, Street Trees Street Lighting and Storm and Creek Maintenance) and some personnel costs are split between those sections.
- This budget completes what has been a long transition from multiple separate maintenance sections into one truly consolidated maintenance section. As of now, and reflected in this budget, we have a single Field Maintenance Supervisor who supervises and directs all maintenance work, from street repair to facility maintenance to park maintenance. There is not significant budget impact because several previous Lead Worker positions were consolidated into a single Field Maintenance Supervisor position and the lead workers will be replaced with lower level maintenance workers that results no total increase to the cost of labor.
- Personnel. There are no full-time-equivalent personnel changes. One employee hired into an FTE position in a part time role has been made FTE and is budgeted thereas in a position that was already FTE-approved by Council. Staff is still evaluating the three vacant FTE positions in PW, all which are currently filled with temporary employees, these include one Engineering Technician and two Maintenance workers.\
- This budget includes an additional \$15,000 to increase our tree-trimming by 50% over previous years.
- Street reconstruction and paving monies come primarily from the Measure Q special revenue fund. We will note here also, in the public works section, that we were able to increase street construction and paving by 13% over last year, from around \$520K to

around \$587K. Still far off our requirement, but we are working to steadily increase our streets budget.

- This budget includes \$45,000 in the Streets Budget for Materials. These materials include:
 - Five tons of asphalt a week for eight months of the year for basic street maintenance, and to complete Goal #2 (Streets)-Objective “d” (Pavement System).
 - Approximately \$6,500 in materials and another \$15,000 in contract services to replace 20% of non-conforming regulatory signs per Goal #2 (Streets)-Objective “c.ii” (Regulatory Signs).
- Additional Contract services in the Streets division budget is the \$38,000 street-sweeping contract, and is required by the State, primarily due to storm drain requirements along with \$10,000 for the maintenance of the Rock parking lot and \$15,000 for sidewalk maintenance.

Other major public works general fund items include:

- Contract services for engineering and survey support (\$20,000). These services we typically used in the past but did not budget for.
- Support for the GIS server needed for the implementation of CityWorks (\$10,000), this will be supplemented with the Water and Sewer funds share for this requirement (\$20,000)

Recreation Services Division

This section covers the Recreation Services Division. While there has been a fairly moderate change in personnel over the past year with the departure of both a Department Head level Director, and a full-time admin assistant, it appears that delivery of services has been reasonably consistent.

We remain committed to delivering the best recreation services, and look forward to providing even more as the City’s revenues improve. It is critical to note, however, that with minimum wage nearly doubling, from \$8/hour in 2014 to \$15/hour in 2021, it will be very difficult to maintain our current level of service without increasing some program costs or substantially increasing general fund subsidy to rec programs. So, future general revenue increases may get eaten up by increased part-time labor costs (due to minimum wage hike) instead of going into expanded programs.

With the recent departure of the full-time Youth Services Supervisor, we plan to hire a Recreation Services Coordinator - a slightly more senior position who will supervise all Recreation Services Division.

- Personnel. This budget includes the slight (~\$3K) increase in moving from a Youth Services Supervisor to a Recreation Services Coordinator, and also moves two long serving “full time / partial benefits” employees in enduring positions to FTE.
- These changes provide a division manager in the office day to day, working in tandem with the Deputy City Manager on long-range recreation planning to further enhance this crucial quality of life initiative for our community.
- Modifying the Kids Club/Kids Camp Director and Teen Center Director/Facility Permit Specialist to full-time positions recognizes their already lengthy hours in the office and continues our recreation commitment to the community.
- This budget includes funding for two City supported events, \$5,000 for 4th of July and \$2,500 for Halloween (partnered with the Chamber of Commerce)
- This budget include funding for two recreation guides (\$6K each) depending on number of ads sold.

Enterprise Funds and Select Internal Service Funds and Special Revenue Funds

This section contains comments on our Enterprise Funds< Harbor, Water, Sewer and Wastewater, the Information Technology Internal Service Fund and select Special Revenue Funds. The Enterprise Funds are stand-alone - revenues into these funds can only be used for expenses directly related to the purpose of the fund. Internal Service Funds “collect” revenue from the General Fund to provide services across City Departments. Special revenue funds include Transit, Government Impact Fees, parking in Lieu and other restricted funds.

Information Technology Internal Service Fund

Information Technology Services is now fully in an Internal Service Fund and all contributions into the fund, and expenses for IT, are covered in that section. The fund receives transfers in from the General Fund and Enterprise funds. These transfers include expenses historically in the IT section of the budget, expenses previously in the various departments for their specific IT needs and the additional \$50,000 from the general fund we added to IT last year to continue our IT transformation – to be more efficient and provide better customer service.

- The personnel line includes costs for our single IT professional and 35% of the DCM.
- The supplies line includes up to \$80K to begin the life-cycle replacement of IT equipment that will be recommended in the IT master plan we are completing now.
- The services line includes all of our basic licenses, the new Office 365 licenses, and sufficient funds to begin to provide off-site network and computer support services.

- We anticipate there are sufficient funds in the services line, and the perhaps the ending cash balance if required, to complete the move of our servers from the closet in City Hall (no power backup) to the Fire Station where they will be resilient during emergencies as planned in goal 10(b).

Harbor Enterprise Fund

The Harbor Enterprise Fund is balanced. However, there is likely a long term requirement vs revenues gap, perhaps sizable, similar to the gap in the General Fund. That is, our future revenues may not match our future requirements for Harbor infrastructure maintenance and replacement (piers, docks, roads). We intend to complete a long-term requirements (and revenue) assessment this year so we know how large that gap may be.

- Personnel. This budget includes \$15,000 for the additional part-time non-benefitted Administrative Assistant approved at mid-year FY16 to continue with department backlogs, and \$3,700 additional part-time pay for a 3% increase to Harbor Patrol Reserve and Harbor Maintenance Aide pay, last increased in March 2013. There are no further changes to Harbor personnel in this budget and none planned this year.
- The budget includes continuance of the following Goal-specific capital projects funding: \$55,500 for the Marine Services Facility/Boatyard, Goal 6.k (Economic Development) (Projects); and \$25,000 for the Fish Cleaning Station improvements, Goal 6.h.”
- \$3,000 increase in revenues for coin-op showers at the Rock restroom, with concurrent \$3,000 expense for additional water use.
- \$6,300 additional Harbor Fund revenues above the Cost Allocation to help continue the threefold increase in waterfront restroom cleaning implemented in the past six months to keep pace with demand.

Water and Sewer Enterprise Funds

With the passage of the water and sewer rate increases last summer the Water and Sewer Funds funds are appropriately funded for at least the five years ending in July 2020. Further, there are sufficient revenues from the sewer fund to fund the anticipated debt on Phase I (approximately \$75M) of the new Water Reclamation Facility.

Water and Sewer Funds are both balanced. The Water Accumulation fund is adding \$47,061 to reserves. Revenues over expenses in the Sewer Accumulation Fund are \$1.27M. This accumulation will continue to increase as water and sewer rates increase and will then be used for capital projects and debt service on the new WRF when the State Revolving Fund loan is made for construction.

We have budgeted to include these funds in the City's 10-year 2017-2026 Budget Forecast scheduled for February 2017.

We anticipate our FY2015-2016 audit will show that the City is now covering the required debt service ratio in the Water Fund.

The Utility Discount Program is continuing with ~120 financially challenged residents taking advantage of a ~10% reduction on tier water / sewer bills.

Water Reclamation Facility (WRF) Capital Project Schedule

Page 128 is the budget for the ongoing Water Reclamation Facility (WRF) project. Since site selection is not yet complete, some line items are quite broad, but with a possible site selection decision in the next month and perhaps facility master planning to be complete in early Fall 2016, the project budget will be able to be refined considerably in the first six months of the fiscal year.

Broadly the Water Reclamation Facility project will be funded from sewer rates and grants. State Revolving Funds (SRF) will be pursued for planning, design, and construction loans and debt service will be paid from user rates. A State Water Resources Control Board grant of \$75,000 for recycled water planning has been awarded to the City, as has \$87,361 in Supplemental Environmental Project money from violations and fines at the California Men's Colony. The City has requested a planning and design loan from the SRF program for \$10,375,000 for planning, permitting, program management, and design activities. The loan application is in review and approval is anticipated by late summer.

Expenditures for 2016 are categorized as Program Management, Bridging/Procurement Documents, Planning/CEQA/Permitting, Property Acquisition, and Lift Station/Force Main Design.

- Program Management expenses of \$900,000 are primarily for Michael K. Nunley & Associates, Inc. (MKN). MKN is the City's program manager for the entire project, hired on in a consultant role instead of the city hiring additional permanent staff to manage this 5-8 year project. Expenditures MKN services include: public outreach, WRFCAC and Council reports, budget management, schedule management, recycled water planning and Master Water Reclamation Plan, solicitation of design and construction teams, coordination with LAFCO and Coastal Commission, and consultant management. Other program management expenses include Kestrel Consulting for ongoing grant and loan application support, and Procore software for data, contract, budget, and schedule management.
- Preliminary Engineering includes the Facility Master Plan by Black & Veatch and additional allocation to perform planning at the South Bay Boulevard and HWY 1

vicinity property (Tri-W site to be referred to as SBB&1). Other expenses include hydrogeologic modeling and analysis by GSI Water; soils investigation at the SBB&1 site by Yeh & Associates; and surveying of that site and pipeline alignment by Head Surveys (Joann Head).

- Bridging/Procurement documents includes preliminary design and bid documents for the Phase I WRF by MKN.
- Planning/CEQA/Permitting includes salinity control planning by Larry Walker & Associates; cultural resources evaluation at the Tri-W site by Far Western; payment to Far Western for completed analysis of the Righetti site; and development of an Environmental Impact Report by ESA.
- Property Acquisition includes an allowance for an option on the SBB&1 property (if required) as well as an allowance of \$2.4M for purchase of a site for the WRF. The actual cost of property acquisition will be determined by the appraised value of the land required for the project. By law, the City cannot pay more than the fair market value of the land as determined by a licensed appraiser.
- Lift Station and Force Main Design includes 60% design completion of the new influent lift station and raw wastewater force main from the vicinity of the existing WWTP site. Consultant will be selected after the Facility Master Plan is completed.

A detailed update on program budget and schedule will be briefed at least quarterly to the Water Reclamation Facility Citizens Advisory Committee (WRFCAC) beginning in June 2016. Regular written updates will be provided to the Council.

District Transaction Tax (Measure Q) Special Revenue Fund

The Measure Q fund anticipates \$1.02M in revenues. This budget commits \$587K to street maintenance / repair, up from \$519K last year. This 13% increase is a step toward improving streets more quickly, but is a long long way from the \$1.5M annual requirement. The remainder of Measure Q funds go to specific public safety requirements, including debt service on the new fire station, the “vacation relief firefighter” position, PD School Resource Officer contribution of \$60K, personal protective equipment for fire fighters. All Measure Q expenditures are directly related to Streets and Public Safety **as required by Council resolution and generally required** by Measure Q **campaign**.

Morro Bay Tourism Business Improvement District (MB TBID) Special Revenue Fund

The MB TBID budget is balanced. The budget includes revenues from the TBID assessment, and a \$60,000 contribution from the General Fund directed by Council resolution. The entire TBID

budget was developed and approved by the TBID Board, and briefed to stakeholders at the Annual Meeting. The new Tourism Manager will manage execution on this section of the budget with oversight from the DCM. The majority of expenditures are for our marketing and public relations contract, previously approved by Council, with Mental Marketing. The budget also includes funds for up to \$50,000 to support multiple events in the city.

1-Time Spending and Governmental Impact Fees Accumulation Fund

Governmental Impact fees are collected as part of the planning and permitting fees for all development. While there are certain restrictions, and some are reserved for specific areas (police, fire, streets, administration, etc), these fees **can be** a source of funds for important City objectives. ~~Last year, the City had significant 1 time spending opportunities due to changes in the Risk Management Fund and invested in certain high priority projects. Those funds are not available this year, but some of our objectives could be funded with 1 time spending from governmental impact fees~~

~~Staff is not ready to recommend how much may be committed from this fund. One reason is we are still assessing how much the City portion of the 41 and Main project will be, and saving for that project is important.~~

~~That said, staff believes that some governmental impact fees could be used for some limited 1-time spending. Therefore, staff recommends Council prioritize our current list of unfunded requirements and staff will be prepared to execute off this list, with Council approval, when funds become available. The 1 time spending list is at attachment 3.~~

Summary of Some Key Funds

The following table summarizes some key funds in the budget document. Numbers rounded to the thousand.

Fund	Current Balance	FY16-17 Change	EOY 16-17 Balance
General Fund Emergency Reserve ¹	\$3,589,000	\$20,000	\$3,609,000

Risk Management Fund ²	\$153,000	\$101,000	\$254,000
Capital Replacement Fund ³	\$100,000	\$100,000	\$200,000
Vehicle Replacement Reserve ⁴	\$130,000	\$75,000	\$135,000
Capital Projects Accumulation ⁵	\$134,000	\$125,000	\$259,000
Facility Maintenance Fund ⁶	\$64,000	-\$63,500	\$500
General Plan Fund ⁷	\$417,000	\$0	\$417,000
Government Impact Fees ⁸	\$480,000	\$226,000	\$606,000
Compensable Leaves Fund ⁹	\$0	\$66,000	\$66,000

1. EOY FY16-17 is ~\$300K above Council directed level.
2. Council directed minimum balance. Possible source of funds for some objective-related spending.
3. Savings account for replacement of existing facilities. Annual contribution should be around \$1M.
4. Includes planned \$70K expense for replacement of two aging maintenance vehicles if required.
5. Possible source of funds for future Embarcadero sidewalk widening and/or 41&Main intersection improvements.
6. General facility maintenance fund.
7. Sufficient funds remaining to complete GP/LCP rewrite.
8. Included planned \$100K expense for two storm drain projects this year. Balance available for some unfunded requirements, possible source for 41&Main funds.
9. Starting to save to pay for compensable leaves - unfunded Requirement ~\$617K (FY15-16 number)

Goal Related Spending Recommendations

The city's goals and objectives list is at attachment 3. This list shows that 72 of the Council's 88 approved FY16-17 objectives are directly funded in this budget. Three objectives are funded with FY15-16 funds, and one is not funded because it may not be needed.

That leaves 11 objectives that are unfunded. Staff recommends the funding plan show in the remarks section of the table at attachment 3.

Salary Schedules and MOU Negotiations

In past years, the City had seven different salary schedules, each approved separately as part of contract negotiations with various bargaining units. To improve transparency, staff has combined these six schedules into one master salary schedule as is the practice in most other cities. A combined salary schedule reflecting current FY15/16 salaries is included as attachment two. Since the budget will likely be approved before MOU negotiations are complete, staff recommends the council approve this combined salary schedule which simply reflects the currently approved FY 15-16 salaries. When negotiations are complete, staff will update the salary schedule based on the new salaries approved by Council when MOUs are approved.

Also attached is draft a FY16-17 salary schedule that assumes a 2.25% across the board cost of living adjustment (COLA) for all employees. This draft FY16-17 schedule is only a draft to demonstrate the effect of a 2.25% COLA adjustment and will not take effect until and if approved by Council as a separate item. That said, this budget includes a 2.25% increase to all employee salaries. Should negotiations result in a lower COLA adjustment, their budget will have a larger surplus. Should negotiations result in a COLA adjustment greater than 2.25% the budget will go into deficit.

Conclusion

Staff continues to work to improve the accessibility and transparency of the budget process and this budget document. There is more work to be done, and one of our approved FY16-17 objectives, one the Citizens Finance Committee is committed to provide assistance on, is to make this process even better next year.

As we get serious about economic diversity and revitalization, we stand a good chance of providing the essential basic service expected of a city. If we don't, our streets will continue to get worse over time, we'll have to borrow money we don't have to finance replacement of facilities we must have, and we'll not meet the fire and police requirements expected of a full-service city. While we may not yet be facing un-incorporation, we are perhaps only 75% of a full service city.

With that said, the staff and I are quite optimistic about the future. Morro Bay has amazing potential and can reach that potential while maintaining our wonderfully eclectic, colorfully unique, beachy, harbory, small-town feel.

David W. Buckingham
City Manager

Attachment 1 – Proposed 2016-2017 City Organization Charts

Attachment 2a – Combined, current, FY15-16 Salary Schedule

Attachment 2s – Draft combined 2016-17 Salary Schedule with 2.25% cost of living adjustment
(to be published)

Attachment 3 – Objective based 1-time spending priority list.

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Priority	Obj #	Goal	Objective	Funding Status	Source of Funds	Remarks	Cost Estimate
1	7.c	Facilities	ADA Compliance Improvements	UFR	GIF	This item will be funded from Government Impact Fees and considered approved with the passage of the FY16-17 Budget.	\$40,000
2	2.b	Streets	Traffic Calming	UFR	GIF	This item will be funded from Government Impact Fees and considered approved with the passage of the FY16-17 Budget.	\$25,000
3	7.g	Facilities	Community Beautification	UFR	GIF	This item will be funded from Government Impact Fees and considered approved with the passage of the FY16-17 Budget. Staff will work with the Community Beautification and Heritage Committee to identify and fund appropriate projects.	\$15,000
4	8.g	QOL	Public Meeting Broadcast Improvements	UFR	GIF	This item can likely be accomplished with government impact fees. However, staff recommends not execute this before a more thorough assessment of requirements. Staff will return to Council for approval to execute during the fiscal year.	\$75,000
5	7.i	Facilities	City Hall Functional Improvements	UFR	GIF	This item can likely be accomplished with government impact fees. However, staff recommends not execute this before a more thorough assessment of requirements. Staff will return to Council for approval to execute during the fiscal year. Budget approval will constitute approval to spend up to \$10,000 on plans, drawings and other preparatory for this project.	\$100,000
6	8.f	QOL	Vet's Hall Renovation Planning	UFR	GIF	This item can likely be accomplished with government impact fees. However, staff recommends not execute this before a more thorough assessment of requirements. Staff will return to Council for approval to execute during the fiscal year.	\$50,000

UFR = Unfunded Requirement; GIF = Govt Impact Fees; RM=Risk Management Fund (excess); BB = Base Budget; ST=Staff Time

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1	2.f	Streets	Bike Needs	UFR	LTF Bike	This item will be funded from existing LTF Bike funds and considered approved with the passage of the FY16-17 Budget. Staff will work with the Citizens bike committee to determine appropriate projects.	\$15,000
1	6.b	Econ Dev.	EDSP Implementation	UFR	RM	This item can likely be accomplished with surplus in the Risk Management Fund. However, staff recommends we not execute until we have the complete EDSP on hand, can prioritize projects, and before a more thorough assessment of possible unprojected expenses to the RMF.	\$50,000
1	5.b	Fiscal Sustain	Budget Transparency	UFR	TBD	Staff time for implementation is in the base budget. Should there be additional expenses such as OPEN GOV or similar paid service, they can be considered at mid year.	\$15,000
2	7.d	Facilities	Signs and Branding	UFR	TBD	If we are ready to execute this year, we will budget this at midyear likely using Government Impact Fees.	\$40,000
3	7.b	Facilities	Implement embarcadero sidewalk widening	UFR	TBD	This item is not budgeted. Should Embarcadero sidewalk widening be approved, staff will determine appropriate source of funds for planning and bring to council for decision.	\$500,000
	2.d	Streets	Traffic Signs	Funded	BB	This item is in the base budget.	\$5,000
	2.e	Streets	Traffic Markings	Funded	BB	This item is in the base budget.	\$5,000
	2.g	Streets	Bike Lane Painting	Funded	BB	There are sufficient funds in the base budget to complete approximately XXX feet of green bike lane painting.	TBD
	3.b	Land Use Plans	Zoning Option for GP/LCP	Funded	BB	This item is in the base budget.	\$100,000
	3.d	Land Use Plans	Wireless Ordinance	Funded	BB	To be updated as part of the GP/LCP/Zoning update	\$1,000
	5.a	Fiscal Sustain	2017 Budget Forecast	Funded	BB	This item is included in the base budget.	\$5,000

UFR = Unfunded Requirement; GIF = Govt Impact Fees; RM=Risk Management Fund (excess); BB = Base Budget; ST=Staff Time

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	7.e	Facilities	Trash and Restrooms	Funded	BB	There are sufficient funds in the base budget to continue the 3x increase in restroom cleaning since Fall 2015. The budget includes a 20% increase in the number of trash cans / collection.	\$10,000
	7.f	Facilities	Tree Trimming	Funded	BB	The based budget includes funds for a 50% increase in the amount of tree trimming from past years.	\$45,000
	7.h	Facilities	ESH Fencing	Funded	BB	This objective is covered in base budget.	\$2,500
	8.b	QOL	City Sponsored Events	Funded	BB	This is in the base base budget.	\$7,500
	8.e	QOL	Recreation Guide	Funded	BB	This item is not in the budget. It could be funded from government impact fees.	\$6,000
	9.b	Water	Desal Permit	Funded	BB	In the base budget	\$45,000
	9.d	Water	"One Water Planning"	Funded	BB	In the base budget	\$200,000
	10.a	City Ops	IT Support	Funded	BB	This item is in the budget.	\$40,000
	10.b	City Ops	IT Disaster Protection	Funded	BB	There is money in the base budget for this.	\$10,000
	10.c	City Ops	Records Management	Funded	BB	2500 in Base and 3500 to be found in base.	\$6,000
	10.i	City Ops	GIS	Funded	BB	This is in the base base budget.	\$20,000
	3.e	Land Use Plans	DWSP	Funded	FY15-16	This item is in the FY15/16 base budget.	\$100,000
	6.k	Econ Dev.	Marine Services Facility	Funded	FY15-16	This item is in teh FY15/16 budget and will carry over to FY 16/17	\$55,000
	10.d	City Ops	Compensation Study	Funded	FY15-16	This item was budgeted in FY15/16 and is ongoing.	\$21,000
	3.c	Land Use Plans	Property Master Plan	Not Funded	NA	This item is on FY16/17 objectives but based on direction / status of WRF we do not believe this will be required this year, if at all. Reevaluate at midyear.	\$50,000
	1.a	WRF	Public Participartion	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	

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	1.b	WRF	Property Acquisition	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	1.c	WRF	Facility Master Plan	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	1.d	WRF	Master Reclamation Plan	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	1.e	WRF	EIR	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	1.f	WRF	SRF Loan Application	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	1.g	WRF	Grant Funding	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	1.h	WRF	Annexation	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	1.i	WRF	Construction Delivery Decision	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	1.j	WRF	Construction RFP	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	1.k	WRF	Construction Contract	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	1.l	WRF	Cayucos Participation Decision	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	

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	1.m	WRF	Existing WWTP Site Future	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	1.n	WRF	City Corp Yard Transition	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	1.o	WRF	Improve Influent Quality	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	2.a	Streets	Street Summitt	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	2.c	Streets	41/Main Funding	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	2.h	Streets	Construction Timing	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	3.a	Land Use Plans	GP/LCP update	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	Already budgeted
	3.f	Land Use Plans	2016 Building Code	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	4.a	Public Safety	Speed Survey	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	4.b	Public Safety	Marijuana Ordinances	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	4.c	Public Safety	Good Neighbor Campaign	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	

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	4.d	Public Safety	Public Safety MBMC Scrub	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	4.e	Public Safety	Strategic Plan Implementation	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	4.f	Public Safety	Public Education	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	5.c	Fiscal Sustain	CFAC Review	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	5.d	Fiscal Sustain	CCA	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	5.e	Fiscal Sustain	Budget Policies	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	5.f	Fiscal Sustain	Vehicle Replacement	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	5.g	Fiscal Sustain	Recreation Programming	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	6.a	Econ Dev.	Lease Management Policy	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	6.c	Econ Dev.	MBPP	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	6.d	Econ Dev.	Biz Info on Website	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	

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	6.e	Econ Dev.	Biz Incentives	No Funds Reqd	ST	This objective is covered in the base budget primarily through staff time.	
	6.f	Econ Dev.	Commercial Real Estate Inventory	No Funds Reqd	ST	This objective is covered in the base budget primarily through staff time.	
	6.g	Econ Dev.	Aquarium Project	No Funds Reqd	ST	This objective is covered in the base budget primarily through staff time.	
	6.h	Econ Dev.	New BIDs	No Funds Reqd	ST	This objective is covered in the base budget primarily through staff time.	
	6.i	Econ Dev.	Economic Development Code Scrub	No Funds Reqd	ST	This objective is covered in the base budget primarily through staff time.	
	6.j	Econ Dev.	Maritime Museum	No Funds Reqd	ST	This objective is covered in the base budget primarily through staff time.	
	6.l	Econ Dev.	Tourism Integration	No Funds Reqd	ST	This objective is covered in the base budget primarily through staff time.	
	6.m	Econ Dev.	Food Trucks	No Funds Reqd	ST	This objective is covered in the base budget primarily through staff time.	
	7.a	Facilities	Market Plaza	No Funds Reqd	ST	This objective is covered in the base budget primarily through staff time.	
	7.j	Facilities	Facility Maintenance Program	No Funds Reqd	ST	This objective is covered in the base budget primarily through staff time.	
	8.a	QOL	Community Pool Planning	No Funds Reqd	ST	This objective is covered in the base budget primarily through staff time.	

Funding Plan for FY 16-17 Objectives

	8.c	QOL	Sea Otter Awareness	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	8.d	QOL	Pickleball Court Space	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	8.h	QOL	Community Paramedicine	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	9.a	Water	State Water Planning	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	9.c	Water	Desal Location	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	9.e	Water	CMC Emergency Exchange Agreement	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	10.e	City Ops	Lease Management Office Reorg	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	10.f	City Ops	MBMC and City Org	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	10.g	City Ops	Succession Planning	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	10.h	City Ops	Harbor Maintenance	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	
	10.j	City Ops	Community Resource Connections	No Funds Req'd	ST	This objective is covered in the base budget primarily through staff time.	